



Quick overview

- Positive trends continued through the second quarter of 2026.
- AI infrastructure spending was the biggest driver of markets.
- Oil prices fell as Middle East tensions eased.
- Markets rose across both equities and bonds during the quarter.

Introduction

The second quarter of 2026 was shaped by two powerful, interconnected themes. First, investor enthusiasm for artificial intelligence continued to support technology and semiconductor-related sectors, as markets focused on the long-term opportunities created by AI investment. Second, easing geopolitical tensions and falling energy prices reduced inflation concerns and supported risk appetite across both equity and fixed income markets. Together, these two forces created a constructive backdrop for investors, even as uncertainty persisted around growth, inflation and central bank policy.

AI infrastructure spending continues to drive market leadership

The dominant theme over the quarter was the continued strength of the AI investment cycle (the ongoing wave of spending by companies building out AI capabilities and infrastructure). Investors stayed focused on the significant capital being deployed into data centres, computing infrastructure, and semiconductor supply chains, despite periodic market volatility. Behind this was a growing belief that artificial intelligence will reshape large parts of the global economy, which supported risk appetite, particularly across technology-related sectors.

Market leadership evolved significantly during the period. The initial phase of the AI rally was driven by large technology platforms investing heavily in their own AI

Portfolio & Market Update

Quarter 2, 2026

capabilities.

As the quarter progressed, attention increasingly shifted towards the companies supplying the infrastructure behind that expansion. Semiconductor manufacturers, computer memory producers, and equipment suppliers benefited most, as expectations grew that demand for advanced chips, networking equipment, and data centre capacity would remain exceptionally strong for several years. Within ProsperityBuild, this shift showed up directly: Asian semiconductor holdings performed strongly, driven by continued investment in AI infrastructure, leadership in AI memory chips, and robust demand for advanced chip manufacturing.

This shift reflects a classic "picks and shovels" dynamic (profiting from the tools and infrastructure behind a boom, rather than the end product itself, with the famous example being the sale of picks and shovels to gold miners instead of mining the gold). Rather than betting solely on which companies would win in AI applications, investors increasingly favoured the businesses providing the hardware that AI needs to run. As investment plans continued to expand, these infrastructure providers were seen as some of the clearest winners from the broader AI spending boom.

The broader technology sector benefited too, as confidence grew that AI adoption is beginning to have a measurable impact on productivity and corporate earnings. Questions remain about the ultimate scale of future demand, but market participants continued to view AI as one of the most significant long-term investment themes.



This supported strong performance across technology and selected emerging market equities during the quarter.

Falling energy prices and easing geopolitical risks supported markets

A second key theme was the improvement in investor sentiment that followed easing geopolitical tensions and a sharp decline in energy prices. Markets had entered the quarter concerned that conflict in the Middle East could trigger a prolonged surge in oil prices, which in turn might reignite inflationary pressures and delay anticipated monetary policy easing.

Conditions improved significantly, however, as diplomatic progress reduced the risk of an extended disruption to global energy supplies. As oil prices retreated, investors grew more confident that the inflation shock feared earlier in the quarter was unlikely to materialise. This supported both equity and fixed income markets and improved confidence in the broader economic outlook.

The decline in energy prices also created a notable divergence in performance across sectors. Lower oil prices weighed on energy producers and companies exposed to commodity revenues, even as they provided a tailwind for many other sectors by reducing input costs and easing pressure on consumers. Within ProsperityBuild, this negative impact on energy producers detracted from performance.

ProsperityShield felt a similar effect, where holdings linked to commodity prices also detracted from returns.

Elsewhere, ProsperityShield benefited from more favourable conditions. Credit markets gained from improved risk appetite, as investors showed greater willingness to move into both higher-quality and higher-risk company bonds, which was one of the biggest contributors to the fund's performance over the quarter, with credit strategies supporting returns. Emerging

Portfolio & Market Update

Quarter 2, 2026

markets added a further boost, delivering another strong contribution to ProsperityShield's overall performance.

Central banks, meanwhile, remained cautious. In the United States particularly, inflation continued to prove relatively resilient, so policymakers were not yet ready to ease back. Falling energy prices did, however, help alleviate concerns that interest rates would need to stay high for longer than expected. Taken together, markets ended the quarter with a more constructive outlook than many had anticipated at the start of the period. This was supported by moderating inflation concerns, resilient economic activity, and improving investor confidence.

Glossary

ProsperityBuild: A growth-oriented investment fund co-manufactured by Flying Colours Investment Management and Fidelity International, designed to provide global equity exposure.

ProsperityShield: A diversified, defensive investment fund co-manufactured by Flying Colours Investment Management and Fidelity International, designed to grow capital over the long term, while providing a smooth performance path for investors.